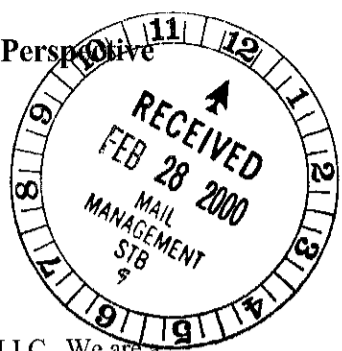


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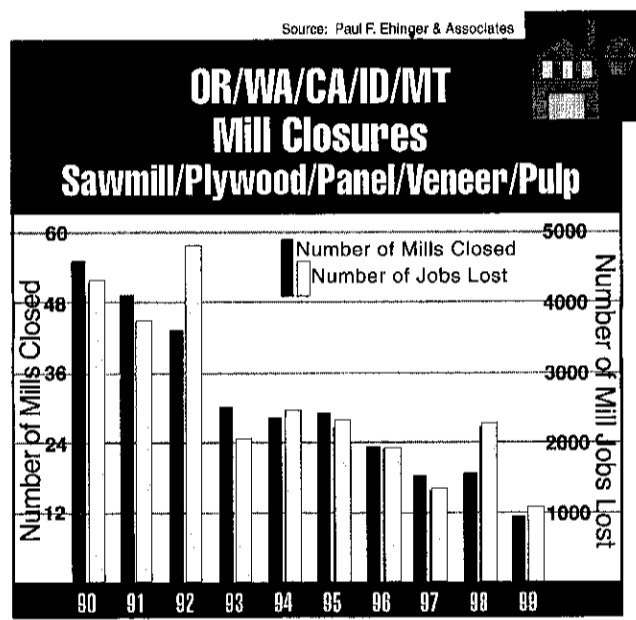
Public Views on Major Rail Consolidations- A Western Log Shipper's Perspective
STB Ex Parte No. 582

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My name is Roy Nott. I am president & CEO of a small company, Paneltech International LLC. We are a privately held company with fewer than 30 employees. The costs of my trip here today to testify will be a noteworthy expense on our March financials! We help our customers, small independent sawmills and wood veneer plants, in their efforts to find enough affordable logs to stay in business. These mills are located in Washington, Oregon, California and Montana. We serve them with our own log rail cars which we load with logs at trans-load yards in British Columbia, Washington, Idaho and, hopefully soon, Alabama. We also help small independent timberland owners in their efforts to access more distant markets. When local mills fail, the lifetime efforts of these landowners can be lost for the lack of a proximate log market. As the following chart shows, these small wood products mills and timberland owners desperately need our help. The virtual shutdown of public timber sales in the west and the imposition of much more restrictive timber harvesting regulations have taken, and continue to take, their toll on these small businesses and the small, rural towns where they are located.



I am not pro-major railroad consolidation. I am pro-my customers and suppliers. I view the railroads, as best as I can, through their eyes. Let me dispel what I see as a misconception at the outset. In the world that I work in, **this is not about the maintenance or loss of rail competition.** Our customers, with just one or two exceptions, have only one affordable railroad option today. Furthermore, most of the logs that they need are beyond the cost-effective range of trucking and they don't own extensive timberlands of their own. The railroads, in these cases, currently have no real competition (with the limited exception of log

barges along the coast). It is more a question of customer orientation and service. Frankly, does the railroad care if they fail or not? In some cases the railroads have taken the time to understand the economic plight of these mills and landowners and they have attempted to try to help them survive. In some cases they have shown indifference and even, I am sorry to say, arrogance, bureaucratic behavior and heavy handedness.

In our world, the world of sourcing distant logs for independent, small mills, end-to end railroad connections are problematic. Every time one railroad hands one of our cars over to a competitor we have costly delays. Both of the Class 1's that we routinely deal with, the UP and the BNSF, seem to periodically get congested at these same points further delaying our movements. The switching fees are often just enough to negate the opportunity for the move. Given our log sourcing operation in British Columbia and these exchange problems, it shouldn't be surprising that we are enthusiastic about the prospect of a BNSF-CN merger. A "seamless" BNSF-CN rail system stretching from Alabama to Washington and up throughout Canada would give our customers many new log-buying options. The BNSF has been very understanding of the plight of our customers, thus far, and I feel confident that they would cooperate in this more expansive log search on the CN system. The same network would also give our timber suppliers much greater market access.

We have talked about "end-to-end" connections. Let's now talk about "side" connections. We also rely extensively on shortlines to serve these small, out of the way facilities and timberland ownerships. Shortlines require switching fees but they generally move faster than the Class 1's which helps to offset these incremental costs. It is tempting for them to exploit what are often near monopoly positions (and they sometimes do) but it is really in their long term interest to learn their local customers' businesses and to become their "partners" and advocates with the Class 1's they both rely upon. A small mill or independent timberland owner could not have a better friend than a cooperative and well-managed shortline. They are more entrepreneurial, they are more accessible, they better understand the strange internal workings of the big railroads and they really *act* as if they believe that they succeed or fail with the success or failure of their customers. They are perhaps our best agents for ensuring that the major railroads really compete with the only real current alternative in most situations- long haul trucks.

As mentioned earlier, I fail to see the disadvantages of this BNSF-CN merger. Service levels are hardly stellar now with either of the Class 1's that we work with and a merger would likely entail some further disruptions. On the other hand, it seems inevitable that relatively resource rich provinces like British Columbia and Alberta will eventually be better linked to resource dependent, wealthy states to the south like California. Truck traffic on the Interstate 5 corridor is already horrendous and population growth in the congested Puget Sound and Portland areas shows no signs of abating. Bigger trucks with more axles and more trailers, the most cost effective solution thus far, exacerbates the problem. Furthermore, states vary in their tolerance for these big rigs confounding state-to-state and even within state truck movements. Barges are cost effective along the coastline but this winter one chip barge broke loose and beached near us and another lost virtually its entire cargo of logs. Barging up and down the Pacific Coast in the winter is a dangerous and uncertain endeavor. It isn't the answer.

I know that some of my friends in our industry are concerned about the prospects, with the merger, for enhanced forest products competition. Competition, fair and balanced competition, makes us strong and I believe that we, as a society, should encourage it. I am the son of a northwest logger and loggers are prone to be direct and blunt: If U.S.-Canadian forest products trade policy is the concern, let's deal with that concern up front. Let's not address it in the guise of the disadvantages of rail consolidation.